

FDIC State Profile

WINTER 2003

Rhode Island

Employment levels in Rhode Island little affected by the recession.

- Rhode Island, much like Maine and Vermont, survived the 2001 recession with little loss of employment. Rather than recession, Rhode Island saw a significant period of stagnation extending from end of the year 2000 through the third quarter of 2003 (see Chart 1). This is in sharp contrast to the early 1990s recession when the state suffered a sharp decline in jobs.
- While overall employment fared well, manufacturing employment contracted greatly. Manufacturing employment in the third quarter was the lowest in this decade and 16 percent below the peak reached in 2000. All major segments within manufacturing have participated in the sharp decline with the exception of transportation and chemicals. Transportation employment benefited from increases in military spending, especially with regard to shipbuilding and maintenance at Quonset Point. Growth in pharmaceuticals buoyed chemicals.

Employment in the Providence-Fall River Metropolitan Area is not faring as well as the entire state.

- Interestingly, the superior jobs performance registered by Rhode Island overall is less evident in **Providence**, which is the state's principal (indeed only) officially designated metropolitan statistical area. The Providence metro area includes portions of Massachusetts, such as **Fall River**, and is still below peak in employment. Separate county data indicate the nearby parts of metropolitan Providence located in Massachusetts have exhibited weaker employment trends than either their Rhode Island metropolitan counterparts or Rhode Island as a whole (see Chart 2).

Home price appreciation has been strongest in New England aided by proximity to expensive Boston market.

- House prices have risen rapidly in Rhode Island, as has been the case for much of New England. Appreciation since the end of 1999 has exceeded 50 percent as measured by prices of houses financed using conventional mortgages (see Chart 3). This appreciation is the fastest pace in New England and reflects, in part, the historical lower cost of housing in Rhode Island as compared to Massachusetts. Housing permits show construction has not advanced with rising prices, especially in recent years.

Chart 1: Nonagricultural Employment in Rhode Island Has Recently Gained Relative to New England

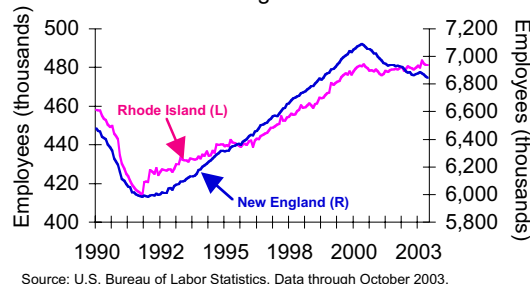


Chart 2: Signs of Improvement Not Visible in State's Metropolitan Area

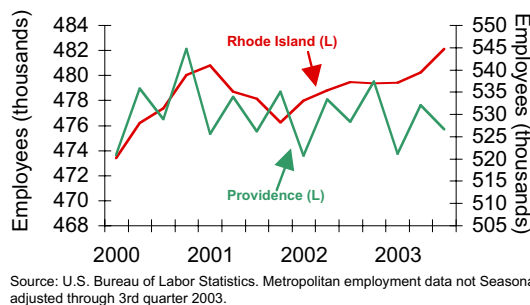
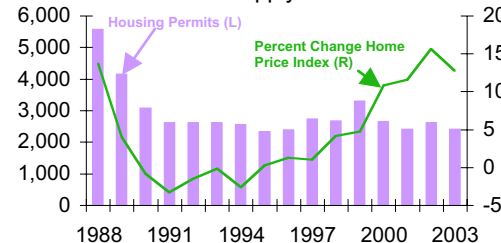


Chart 3: Rhode Island Home Prices Continue to Show Strong Growth with Little Response in New Supply



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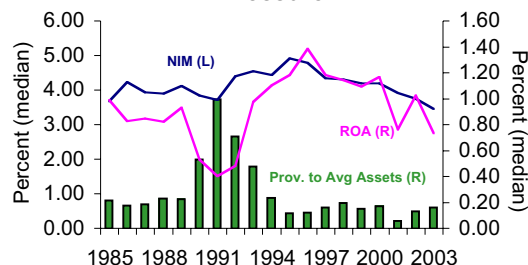
Rhode Island's banks and thrifts continued to be profitable, but showed some pressure on earnings as net interest margins declined.

- Rhode Island's insured institutions reported a median return on assets (ROA) of 0.73 percent as of the second quarter 2003, down from 1.02 percent in the second quarter 2002. Profitability in the state's insured institutions was undermined by declines in net interest income and increased expenses. The median net interest margin (NIM) in the state's insured institutions declined 30 basis points to 3.45 percent as of June 30, 2003 (see Chart 4).
- Insured institutions continue to utilize gains on the sale of securities to boost earnings. As of June 30, 2003, securities gains represented 17 percent of net income in the state's insured institutions. There are still gains to be taken, at least in the short term, as total unrealized gains amounted to \$415 million as of June 30, 2003, representing about 1.18 percent of total securities available for sale.
- Loan-loss provisions remained extremely low and have helped maintain profitability. Should the economy suffer another downturn, causing a deterioration in credit quality, profitability may be affected as insured institutions increase provisions.

Interest-Rate Risk remains a concern for Rhode Island institutions with increased concentrations of fixed-rate, long-term assets, resulting from the recent refinancing waves.

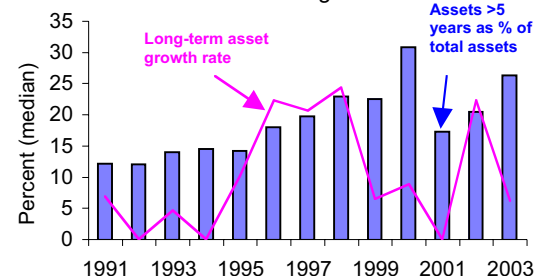
- The conventional 30-year mortgage rate declined significantly over the past several years, approaching historic lows. Refinancing activity remained strong during the first half of 2003, but started to slow in the second half of the year as mortgage interest rates began to rise. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13 percent of originations in July 2003 to almost 24 percent in November 2003. While the shift to adjustable rate mortgages ultimately may allow greater asset repricing, insured institutions still held large volumes of long-term assets at low fixed rates.
- Since the late 1990s, asset maturities began to lengthen at many institutions, but began to moderate in the last year. The median ratio of long-term

Chart 4: Earnings Fall and NIM Still Shows Pressure



Source: Bank and Thrift Call Reports. Data as of 2nd quarter.

Chart 5: Long-Term Asset Concentrations Increasing



Source: Bank and Thrift Call Reports. Data as of 2nd quarter.

assets to total assets is 26 percent as of June 30, 2003 (see Chart 5). If the recent rise in mortgage rates is sustained, the average life of mortgage portfolios will extend further and may result in a mismatch of asset and liability repricing for some institutions. Net interest margin compression may occur, when short-term interest rates increase as liabilities reprice at a faster rate than assets.

- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of residential lenders. Residential real estate loans comprised almost 40 percent of the average loan portfolio as of June 30, 2003.

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Rhode Island at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	15	14	13	12	13
Total Assets (in thousands)	212,214,060	197,118,571	208,500,276	164,189,841	93,426,600
New Institutions (# < 3 years)	4	3	1	1	1
New Institutions (# < 9 years)	6	5	3	2	2
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	11.12	9.95	8.31	7.65	8.00
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	0.76%	0.87%	1.06%	1.06%	1.58%
Past-Due and Nonaccrual > = 5%	0	0	1	1	2
ALLL/Total Loans (median %)	1.23%	1.20%	1.30%	1.32%	1.47%
ALLL/Noncurrent Loans (median multiple)	2.27	3.44	2.37	3.31	2.48
Net Loan Losses/Loans (aggregate)	1.94%	2.14%	1.00%	1.17%	1.31%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	3	1	1	0	0
Percent Unprofitable	20.00%	7.14%	7.69%	0.00%	0.00%
Return on Assets (median %)	0.73	1.02	0.76	1.17	1.09
25th Percentile	0.65	0.66	0.51	0.82	0.83
Net Interest Margin (median %)	3.45%	3.75%	3.90%	4.18%	4.18%
Yield on Earning Assets (median)	5.71%	6.41%	7.82%	7.82%	7.51%
Cost of Funding Earning Assets (median)	2.05%	2.60%	3.99%	4.19%	3.59%
Provisions to Avg. Assets (median)	0.16%	0.13%	0.05%	0.17%	0.15%
Noninterest Income to Avg. Assets (median)	1.29%	1.51%	1.09%	1.19%	1.36%
Overhead to Avg. Assets (median)	3.49%	3.49%	3.37%	3.45%	3.27%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	85.62%	83.47%	85.34%	89.86%	86.60%
Loans to Assets (median %)	64.17%	61.42%	67.00%	67.80%	71.08%
Brokered Deposits (# of institutions)	3	3	3	3	3
Bro. Deps./Assets (median for above inst.)	0.39%	0.22%	0.61%	0.82%	0.98%
Noncore Funding to Assets (median)	19.83%	21.53%	26.28%	26.75%	22.57%
Core Funding to Assets (median)	62.27%	62.38%	62.42%	62.81%	64.79%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	4	3	4	4	5
National	4	4	3	2	2
State Member	0	0	0	0	0
S&L	2	2	1	1	1
Savings Bank	3	3	3	3	3
Mutually Insured	2	2	2	2	2
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Providence-Fall River-Warwick RI-MA	10	209,221,783	66.67%	98.59%	
No MSA	3	1,082,857	20.00%	0.51%	
New London-Norwich CT-RI	2	1,909,420	13.33%	0.90%	